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NOTES

THE FUNCTIONAL APPROACH TO THE STUDY OF MARKETING

That marketing today occupies so large a place in the systematic study of business is due in considerable measure to Mr. A. W. Shaw. His little volume *Some Problems in Marketing Distribution*, and the essay which preceded it,¹ mark the real beginnings of the scientific analysis of marketing problems. How far that work has progressed is indicated by the publication, during the past year, of three volumes presenting general studies of the marketing field: Mr. Cherington's *The Elements of Marketing*, Mr. Ivey's *Principles of Marketing*, and Mr. Duncan's *Marketing, Its Problems and Methods*. These three volumes have appeared in response to an insistent demand for a textbook on marketing, supplementing Professor Copeland's volume of problems.²

Mr. Shaw's great service was such emphasis upon the need for scientific analysis of the productive operations of marketing as to challenge the energies of students.³ But Mr. Shaw did more. His general attack discloses a method of analysis: the use of the functional approach. He breaks up the work of the middleman into "the functions of middlemen"—assuming risk, financing, transporting, assembling, assorting, and reshipping—and explains the marketing service involved in the performance of these functions. But it is as the "functions of middlemen" that they are considered, not as marketing functions. This is an inadequacy; for no hard and fast line can be drawn which definitely allocates the performance of certain functions to those ordinarily classified as middlemen: merchants, jobbers, and retailers—dealers who take title to the goods. Indeed because the work of carrying

¹ This volume is a reprint, with an introductory chapter, of an article with the same title in the *Quarterly Journal of Economics* for August, 1912. The discussion is also the basis of the elaborated text of Mr. Shaw's *An Approach to Business Problems*.

² Melvin T. Copeland, *Marketing Problems*.

³ "But the marketing of the product has received little studious attention. As yet there hardly has been an attempt even to bring together, describe, and correlate the facts concerning commercial distribution," *Some Problems in Market Distribution*, p. 41.

risks, transporting and financing, is largely delegated to specialists, Mr. Shaw developed a new classification, "functional middlemen," under which to group such agencies as insurance companies, railroads, and commercial banks. These perform marketing functions, but they do not normally take title to the goods.¹

Mr. Weld's *The Marketing of Farm Products*,² a consideration of the problems of agricultural marketing, was the next significant elaboration of the functional approach. This seems inevitable. For no other market structure presents as clean cut a differentiation in terms of functions performed by specialists as appears in the farm field. But Mr. Weld further illustrated the use of the functional approach in an analysis of the marketing of manufactures. A general theoretical discussion was followed by an applied study: "The Marketing Agencies between Manufacturer and Jobber."³ Seven functions were there distinguished:

Assembly, or the seeking out of commodities from various sources, making connections, etc.; storing, or the holding of goods at convenient points; financing, or the giving of credit, making loans and advances, etc.; assumption of risks from price fluctuation, deterioration, style changes, etc.; rearrangement, or the sorting, grading, and packing function; selling [which includes advertising]; and transportation [the most important feature of which is the delivery service].⁴

¹ The importance of the distinction between the phrases "functions of middlemen" and "marketing functions" was first indicated by Mr. L. H. D. Weld:

The services that must be performed in getting commodities from producer to consumer are usually called the "functions of the middleman"; in the title of this paper they are referred to as "marketing functions" because they are not always performed by middlemen, but often to a greater extent by the producers themselves. When a manufacturer performs practically all of them, as, for example when he sells through his own retail stores, it might be said that he is his own middleman, but the term "middleman" commonly means an independent merchant, rather than a part of the manufacturer's selling organization. It is therefore helpful to think of "marketing functions," rather than the "functions of the middleman," because these functions are not necessarily performed by what we ordinarily term middlemen. It should also be noted that the final consumer generally performs part of the marketing functions.

"Marketing Functions and Mercantile Organization," *American Economic Review*, VII, 306.

² Mr. Weld in this volume drew upon his paper "Market Distribution," read at the 1914 meeting of the American Economic Association, and republished in "Studies in the Marketing of Farm Products," *University of Minnesota Studies in the Social Sciences*, No. 4.

³ The theoretical study, "Marketing Functions and Mercantile Organization," was published in the *American Economic Review*, VII, 306. The article on marketing agencies appeared in the *Quarterly Journal of Economics*, XXXI, 571.

⁴ *Ibid.*, p. 573.

This classification of marketing functions was then applied to the analysis and differentiation of the marketing services performed by commission houses in the textile trade, manufacturers' agents, and brokers in the grocery trade, and manufacturers' agents and purchasing agents in the hardware trade.

The essential additions to the functional analysis here consisted in emphasis upon buying and storage, and in the breaking up of the "assembly-assorting-reshipping" function into its essential constituents. Storage by specialized agencies does not occupy the place in the marketing of manufactured goods (which Mr. Shaw largely considered), of canned goods, or of package goods which it occupies in the marketing of farm products, especially perishables which must utilize refrigeration. Mr. Weld's original approach to the problem from the agricultural field caused this function to hold a larger place in his analysis than it did in the analysis of Mr. Shaw. The latter's interest in "the functional middleman" had led him to identify the three functions of marketing which are largely delegated to specialists (risk assumption, the transportation service, and financing) and to group under the general heading "assembling, assorting, and reshipping," those activities which are peculiarly the work of the jobber in the marketing of staple commodities.

The latest analysis utilizing the functional approach is that of Mr. Cherington: *The Elements of Marketing*. This is a general treatment of the broad problem. Mr. Cherington considers two main groups of functions—merchandise functions: assembly, grading, storing, transporting; auxiliary functions: financing, assuming risks, "sales functions." Comparison with Mr. Weld's classification indicates substantial coincidence. Under "sales functions," however, Mr. Cherington discusses, not the operations essential in effecting a transfer of title, but rather a group of problems connected especially with the routine of retail management. These certainly have a place in a book in marketing, but rather as a discussion of problems than as distinct functions. Indeed Mr. Cherington discusses them as such: the competitive forces which lead to an elaboration of store equipment, say soda fountains; the training of a working force; the creation of good-will, and the essential personal contacts. But buying and selling call for recognition as distinct marketing functions. Selling comprehends more than the converse of "assembly," variously referred to by Mr. Cherington as "dispensing" and "disbursing"; it comprehends more than is included in Mr. Shaw's definition: "the communication of ideas about the goods." Selling is effecting a sale, a transfer of title. Nor does Mr. Weld's

subordination of "buying" under "assembling" give adequate recognition to the other side of the exchange transaction. Again, two distinct services are confused. Buying and selling effect exchange, assembling and dispersing, utilizing the service of transportation, control the physical disposition of the goods.¹

There should likewise be differentiation of the functions which Mr. Weld groups under the general heading, "rearrangement, or sorting, grading, and packing." Two distinct functions can be distinguished: the preparation of a variety of goods (assorting) and the preparation of uniform lots of goods (standardizing). Take the case of farm products: the importance of assorting depends largely upon the character of the product, whether food stuff or raw material. Since, for example, tanneries and textile mills, in general, require a uniform supply of materials, the function of assorting is relatively unimportant, while that of standardizing is vital. This difference in the character of demand accounts for the essential difference in structure between the raw materials and the food-stuffs markets. In the latter is found the jobber who performs a *function of assorting*; in the former appears the "merchant" or dealer, furnishing uniform lots, *standardizing*. A parallel difference appears between the selling of partly manufactured goods and the merchandising of manufactured articles and package-goods, especially goods available for the final consumer. The assorting function, therefore, cannot be dropped out, for it bears an important relationship to the market structure. The presence of a jobber in a marketing organization means that a service of assembly and assorting is an important part of the work of marketing. Where there are a large number of small producers, each specializing on a few products, but where a complete retail stock includes a wide variety of products, the jobber performs his maximum of service, in economizing the efforts of producers to reach retailers and retailers to reach back to producers. He prepared the variety of goods—the "assortment."

Mr. Cherington considers the other essential element—standardizing; but he discusses it under the heading, "grading." This is an inadequacy; for the marketing function is of greater importance and wider application

¹ Indeed, although Mr. Cherington considers these two operations (assembly and dispersing) as effecting performance of a single basic function—the adjustment of the quantity of merchandise produced and that sought for consumption—his discussion recognizes the essential difference between the buying and selling marketing services. Frequently indeed these involve different personnel and different policies. Mr. Shaw had used the phrases, "Demand Creation" and "Physical Distribution," and his *An Approach to Business Problems* discusses both at some length.

than mere grading or classing. Although the important element in the marketing of farm and ranch products, grading is only one method of standardizing.¹ The function is pervasive in the whole marketing field. The machine process, with the demand for uniform materials, operating with modern cutting tools and measuring devices, with written instructions and close inspection, creates products which are substantial duplicates. One screw is like another screw; one pound of sugar, one tire, one cracker like another; one pair of hose like another. The same influences are at work in the performance of the buying function. Standard products demand standard materials. The purchasing department of a large business, quite as much as the operating or sales departments, must be governed by standards. And even the work of weighing or measuring in a retail store is the application of generally recognized standards of count, weight, or measure to goods of standardized quality or to goods open for inspection.²

Probably no function has greater ramifications than has standardization. Known grades and qualities are the basis of contracts of sale; they are the basis of warehouse receipts and bank loans; and only standardized qualities can be the basis of a system of organized speculation. The United States government has taken over the work of supervising standards in the case of raw materials of large importance, grains and cotton; and the Department of Agriculture is active in the work of emphasizing the importance of standardized quality.³ In the field of

¹ See for example, Mr. Cherington's *The Wool Industry*, pp. 49-53; also the discussion by Professor James E. Boyle, *American Economic Review*, XI, 208. Professor Boyle says: "Summarizing, it may be said, that the first step in marketing is producing a better product and putting on the market a graded, standardized product." See also the *Report of the Federal Trade Commission on the Grain Trade*, and Bliss S. Brown, *Modern Fruit Marketing*. The Farmers' Bulletin series carries numerous bulletins on this subject.

² All this is not new. Professor Carver, in a note, "Standardization in Marketing," indicated clearly the importance of standardizing:

The reasons in favor of fixing standards of quality, wherever it can be done, are identical with those in favor of fixing standards of measuring quantity. They are summed up in the superior economy of buying on grade and reputation, as compared with buying on inspection. The buyer of an unstandardized commodity may have enough confidence in the seller's system of weights and measures to avoid the necessity of inspecting the commodity in order to determine its quality. In all cases where quality can be standardized, there is economy of effort. So far as buyers can be saved the trouble of inspection so far will they be enabled to economize on time, effort involved in making purchases, and so far also will the salability of commodities be increased. *Quarterly Journal of Economics*, XXI, 341.

³ See *Annual Report*, 1920, *U.S. Department of Agriculture*, p. 547, a discussion of the Cotton and Grain Standards Acts; and p. 545, a discussion of the Standard Container Act. The regulations issued by the Division of Warehousing seek to insure the adherence to standards by providing for licensed graders, etc., p. 560.

manufactured products the Bureau of Standards and the American Society for Testing Materials are doing significant work.

Standardization is also the basis of the growth of advertising, and the movement to go around the jobber. The place of advertising in this process is well explained by Mr. Shaw in his discussion of the evolution of methods of sale. Mr. Shaw traces the development in methods of sale, his classification corresponding to the doctrines developed in the law of sales: sale in bulk, sale by sample, sale by description.¹ Adherence to the legal categories hides two important considerations: what Mr. Shaw calls sale in bulk is really by inspection, a distinct method; the term sale in bulk (considered in its business relationships) should rather be reserved to such transactions as the sale of eggs on "the case count" basis; cheese, on the "run of the shelf"; peanuts "in the rough"; the "plantation run" of rubber; tobacco sold "loose,"² etc. Although Mr. Shaw discusses the use of symbols in connection with sale by description, he does not emphasize that "sale by symbol" (usually sale by brand) is a distinct advance over sale by description, involving new methods and problems. Sale by brand or trade-mark is sale by symbol. It depends upon standardized quality. Sale by sample demands standardization, but a standardization for which the sample is a basis of comparison. Sale by description has no objective test; it is sale by specifications only. These specifications may be formal specifications established by associations of business men or by boards operating under legislative authority. They may be specifications established by either buyer or seller or specifications established by associations. When the seller sets specifications he is laying the groundwork for sale by symbol. By branding he then seeks to put his goods in a class where common knowledge attaches specifications, especially quality specifications, to the product. Thus, this operation is analogous to the grading of farm products. When an entire line is branded, the characteristics of one article are associated in the minds of purchasers when other articles are bought.

Advertising, therefore, finds its significant place in selling a standardized product, or a quality service which possesses ease of identification. For standardization is essential in any large-scale and wide-selling

¹ *An Approach to Business Problems*, pp. 105; previously presented in *Some Problems in Market Distribution*.

² See Report No. 98, *Systems of Marketing Farm Products*, G. K. Holmes, Department of Agriculture; also Meyer Jacobstein, *The Tobacco Industry*, p. 73, an excellent discussion of sales of leaf tobacco in bulk, by inspection and by sample.

campaign, utilizing description. And, in the second place, standardization is essential for sale by brand in order that all purchasers, guided by satisfaction from an original purchase, shall not be disappointed because of uncertain quality. This tendency toward standardization, as we have seen, is by no means limited to agricultural marketing, nor are its economies effective in that field alone. Undoubtedly, the success of the co-operative organizations in the use of general advertising has emphasized the importance of grading as a means of standardization. The basis of this success has been enforcement of quality standards worth identifying.¹ But modern industry specializes on standardized products, and it is therefore not accidental that advertising has developed as a selling force, as large-scale production and automatic machinery have created quantities of uniform products seeking a market. Sale by advertising is a logical result, not alone of improved general education, but of the evolution in manufacturing methods. Fundamentally it is sale by standard.

Analysis of marketing service in terms of the marketing functions, then, conforms with the market structure and with commercial practice. It is the logical approach in dividing the larger problem into its constituent problems, which can be considered singly, and then brought together in a consideration of the problem as a whole. This is true, not only because the specialists exist to perform certain functions, but because the problems involved in the marketing machinery and marketing process can be developed and isolated as a basis of intensive investigation, by an exposition in terms of the functions performed. One weakness must be guarded against. Unless care is taken to bring all factors together there is likely to develop the tendency to treat each function as in a distinct compartment, when, in point of fact, the performance of one function frequently governs the method of performing others. Sale is frequently dependent upon standardization; finance upon storing; risking upon selling and financing; and there is the close interrelationship of transporting, risking, storing, and financing, illustrated in the use of the order bill of lading and the warehouse receipt as collateral. This interrelationship of functions is well illustrated in Dr. Duncan's *Marketing, Its Problems and Methods*. To be sure his treatment of marketing functions is an incidental rather than a governing element in the discussion; nevertheless, even this treatment clearly indicates the importance of the operations here designated as marketing functions.

¹ See the discussion of the brand policy, California Fruit Growers Exchange, W. W. Cumberland, *Co-operative Marketing*, p. 164.

These marketing functions, the tools for analysis of marketing problems as developed in this discussion, may now be listed. They are ten: assembling, buying, financing, standardizing, transporting, storing, assorting, risking, selling, dispersing. These ten functions do not appear in every marketing transaction; nor are they necessarily performed in any particular order. The "pure" broker merely buys or sells; the factor frequently finances; the jobber may perform all, in some instances even carrying the full risk burden, in others delegating the risk to the insurance agency. Some are frequently performed by a consumer, when sale is made to that last link in the marketing chain. The analysis achieved by the use of the functional approach discloses a picture of the work done. The functional approach, it must be remembered, is not an end in itself, but a means to an end—the securing of comparative facts on marketing methods and problems.

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